CANADA/JAPAN BUSINESS COOPERATION COMMITTEE
BACKGROUND BRIEFING NOTES

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CANADA/JAPAN RELATIONS

THE PERSPECTIVE

At present, Canada is one of the few industrialized countries not facing a serious trade deficit problem with Japan. Traditionally, Canada has run a large surplus with Japan. While the surplus for this year appears to have shifted to a very small deficit of less than $60 million, Canadians should compare this with the U.S. trade deficit with Japan of close to $40 billion U.S. for 1984.

In terms of market share, Japan is Canada's second largest market, accounting for 5.2 per cent of total Canadian exports. This represents 3.4 per cent of Japanese imports. Canada, however, is Japan's thirteenth largest market, accounting for only 2.1 per cent of Japan's exports. This represents 5.1 per cent of Canadian imports. Canada's trade with Japan has a marked regional base. The majority of Canadian exports to Japan originate in Western Canada, with approximately 45 per cent of Canadian exports originating in British Columbia.

These figures illustrate that the Japanese market is of more economic significance to Canada - particularly Western Canada, than the Canadian market is to Japan.

THE PROLONGED RECESSION IN THE INDUSTRIALIZED COUNTRIES, THE HARSH INTERNATIONAL IMPACT OF U.S. MONETARY POLICY, AND THE EFFECTIVE RESPONSE OF THE JAPANESE TO BOTH OIL SHOCKS, INFLATION AND RECESSION, PLACED CANADIAN ECONOMIC RELATIONS WITH JAPAN INTO A WORLD CONTEXT. IN ALL MAJOR EXPORT AND IMPORT SECTORS, CANADA FACES STRONG COMPETITION JUST TO MAINTAIN ITS MARKET SHARE. THE IMPACT OF JAPANESE EXPORTS IN STEEL, ELECTRONICS, MACHINE TOOLS AND AUTOMOBILES HAS BEEN FELT GLOBALLY. IN ESSENCE, CANADA CANNOT FORMULATE POLICIES AND ACT UNILATERALLY IN RELATION TO JAPAN AS IF IT WERE EITHER A MAJOR SUPPLIER OR MARKET.

TRADE FRAMEWORK

CANADA AND JAPAN ARE MEMBERS OF THE GATT, WHICH PROVIDES THE FRAMEWORK FOR TRADE BETWEEN THE TWO COUNTRIES. IN PURSUING THE THIRD OPTION, CANADA ENTERED INTO "FRAMEWORK AGREEMENTS" WITH BOTH EUROPE AND JAPAN. THE INTENT AT THE TIME WAS TO BROADEN CANADA'S ECONOMIC RELATIONSHIPS OR, MORE SPECIFICALLY, TO LESSEN CANADA'S DEPENDENCE ON THE UNITED STATES. IN OCTOBER, 1976, THE PRIME MINISTERS OF CANADA AND JAPAN SIGNED A FRAMEWORK FOR ECONOMIC COOPERATION. THE GOVERNMENT OF BRITISH COLUMBIA, AS A MAJOR PARTICIPANT IN THE CANADA/JAPAN ECONOMIC RELATIONSHIP, REQUESTED THAT IT BE CLOSELY INVOLVED IN THE DEVELOPMENT AND IMPLEMENTATION OF

FEDERAL POLICY IN THIS AREA. MEETINGS BETWEEN OFFICIALS OF BOTH GOVERNMENTS HAVE BEEN CONDUCTED UNDER THE AUSPICES OF THE JOINT ECONOMIC COMMITTEE (JEC). A SUB-GROUP OF THIS COMMITTEE, THE WORKING GROUP ON RESOURCE PROCESSING, HAS BEEN ESTABLISHED AND INCLUDES PROVINCIAL REPRESENTATION. MEETINGS OF THIS GROUP TO DATE HAVE FOCUSED ON NON-FERROUS METALS AND PETROCHEMICALS. THE MOST RECENT MEETING IN EDMONTON IN SEPTEMBER, 1984, PROVIDED A USEFUL DIALOGUE ON GLOBAL ENERGY AND PETROCHEMICAL DEVELOPMENTS,AND THEIR IMPACT ON OUR BILATERAL TRADE AND INVESTMENT RELATIONSHIP.

FOLLOWING THE COMPLETION OF THE MULTILATERAL TRADE NEGOTIATIONS IN 1979, JAPAN HAS BEEN FORCED BY BURGEONING TRADE SURPLUSES TO ACT UNILATERALLY IN OPENING ITS BORDERS TO IMPORTS. AGREED TARIFF CUTS HAVE BEEN BROUGHT FORWARD TO THE POINT WHERE A MAJORITY OF THE 1987 CONCESSION RATES HAVE BEEN PUT IN PLACE. A NEW SERIES OF MARKET OPENING MEASURES WAS INTRODUCED IN APRIL 1985. A BROAD REVIEW OF NON-TARIFF BARRIERS HAS REMOVED SOME BARRIERS, PARTICULARLY REGARDING THE SOFTWOOD PLYWOOD STANDARD, AND ELECTRICAL APPLIANCE TESTING. IN ADDITION, A TRADE OMBUDSMAN CONTINUES TO DEAL WITH FOREIGN TRADE COMPLAINTS. GIVEN THE LOW YEN VALUE, THE STRENGTH OF THE AMERICAN DOLLAR, AND THE INTERNAL RIGIDITY OF JAPANESE BUSINESS RELATIONSHIPS, THE RESULTS OF THESE CHANGES HAVE BEEN LIMITED FOR MOST MAJOR INDUSTRIAL COUNTRIES (EVEN THOUGH THIS VIEW IS NOT SHARED DOMESTICALLY IN JAPAN).

THE UNITED STATES PUT INCREASING PRESSURE ON JAPAN TO LIBERALIZE ITS MARKETS AS PROTECTIONIST FORCES GREW IN THAT COUNTRY. IN 1984-85, THE UNITED STATES PUT PRESSURE ON SEVERAL KEY SECTORS, INCLUDING FOREST PRODUCTS, FOR FURTHER LIBERALIZATION.

THE CHANCES OF CANADA BENEFITTING FROM THIS KIND OF PRESSURE INDIRECTLY ARE QUITE SMALL. FIRST, THE SECTORS AND TARIFF ITEMS PICKED BY THE U.S. ARE SPECIFIC TO U.S. INTERESTS, AND IT IS ONLY IN THE FOREST PRODUCTS AND COMMUNICATIONS SECTORS WHERE WE MIGHT EXPECT TO GAIN FROM ANY CONCESSIONS. SECONDLY, AS WILL BE DISCUSSED LATER, WE ARE CONCERNED THAT JAPAN MAY DECIDE TO RESOLVE SOME OF ITS IMBALANCE WITH THE U.S. BY SHIFTING ITS IMPORTS AWAY FROM CANADA TO THE U.S.

CANADA HAS ALSO BEEN MOVING TO IMPLEMENT ITS GATT OBLIGATIONS, WITH WORK UNDER WAY TO ALTER ITS CUSTOMS NOMENCLATURE AND CUSTOMS VALUATION PROCEDURES. ADDITIONALLY, THE GOVERNMENT PASSED THE SPECIAL IMPORT MEASURES ACT, WHICH NOW REGULATES THE TREATMENT OF TRADE DISPUTES. THE MAJOR CONSIDERATION IN THESE CHANGES IS HOW THEY WILL BE ADMINISTERED. THE POSSIBLE USE OF THE IMPORT TRIBUNAL TO BLOCK HEAVY ELECTRICAL EQUIPMENT IMPORTS IS AN OBVIOUS CONCERN TO BRITISH COLUMBIA. THE REGIONAL IMPACT (I.E. ANTI-DUMPING DECISIONS ON STEEL AND MAJOR CAPITAL EQUIPMENT) OF THIS LEGISLATION CAN BE EXTREMELY COSTLY.

TRADE AND ADJUSTMENT - JAPANESE DEVELOPMENTS AFFECTING CANADA

IN THE EARLY 1970'S JAPAN WAS ALMOST ENTIRELY RELIANT UPON IMPORTED RESOURCES, IN PARTICULAR ENERGY RESOURCES. JAPAN'S HEAVY INDUSTRIES, WHICH HAD SPURRED JAPANESE INCOME, PRODUCTION, AND EXPORT EXPANSION WERE PARTICULARLY VULNERABLE TO RESOURCE SUPPLY DISRUPTIONS. FOREMOST AMONG THESE WERE THE IRON AND STEEL SECTOR (IRON ORE, COAL), COPPER AND ALUMINUM SMELTER/REFINERIES, CEMENT PLANTS, PULP AND PAPER MILLS, PETROCHEMICAL INDUSTRIES, AND DOWNSTREAM INDUSTRIES SUCH AS SHIPBUILDING.

SUCCESSIVE OIL SHOCKS HAVE SINCE LED TO A MAJOR REVALUATION OF THE USE AND APPLICATIONS OF ENERGY IN THE JAPANESE ECONOMY. UNLIKE NORTH AMERICA, ENERGY PRICE (OIL) INCREASES WERE IMMEDIATELY TRANSMITTED TO CONSUMERS. A MASSIVE SHIFT IN THE INDUSTRIAL STRUCTURE WAS NECESSITATED BY THE LOSS OF COST COMPETITIVENESS. AS WELL, INVESTMENT WAS UNDERTAKEN IN FUEL EFFICIENT PROCESSES, AS WELL AS THE DEVELOPMENT OF ALTERNATIVE ENERGY FORMS (I.E. NUCLEAR, COAL, NATURAL GAS) AND ALTERNATE SUPPLY SOURCES. THE NET EFFECT FOR JAPAN HAS BEEN THAT REAL GNP HAS INCREASED, WHILE TOTAL ENERGY CONSUMPTION HAS FALLEN.

THE IMPACT IN BRITISH COLUMBIA HAS BEEN MIXED. REDUCED STEEL DEMAND WORLD-WIDE, COMBINED WITH ENERGY INNOVATIONS IN STEEL PRODUCTION, LOWERED BOTH STEEL PRODUCTION AND THE DEMAND FOR METALLURGICAL COAL. ON THE OTHER HAND, ENERGY-INTENSIVE SECTORS HAVE BEEN DOWNSIZED, AND/OR MOVED OFFSHORE UNDER GOVERNMENT GUIDANCE. THE ALUMINUM SECTOR IS A CLEAR EXAMPLE OF HOW THIS RESTRUCTURING AND CHANGES IN SOURCING HAS BENEFITTED CANADA.

SLOW WORLD ECONOMIC GROWTH, COMBINED WITH THE LOW YEN RATE, AND STABLE OR FALLING REAL ENERGY PRICES HAVE TEMPORARILY EASED THE PRESSURE FOR ADJUSTMENT ON THE ENERGY INTENSIVE SECTORS IN JAPAN. HOWEVER, THE LONG TERM MOVEMENT OUT OF HEAVY INDUSTRIES INTO KNOWLEDGE INTENSIVE SECTORS HAS BECOME A WELL-ESTABLISHED PATTERN, ONE WHICH SHOULD LEAD TO THE ENHANCEMENT OF THE CANADA/JAPAN ECONOMIC RELATIONSHIP.

OTHER CURRENT DEVELOPMENTS, SUCH AS THE USE OF PLASTIC AND OTHER SUBSTITUTES TO REPLACE NON-FERROUS METALS AND THE GROWTH OF LOW-COST OFFSHORE SMELTING IN LDC'S ARE TROUBLESOME FROM THE CANADIAN PERSPECTIVE BUT SHOULD BE VIEWED AGAINST THE LARGER BACKDROP.

IN THE FINAL ANALYSIS, WHEN IT HAS FINISHED ITS ADJUSTMENT TO THE OIL SHOCKS AND THE RECESSION OF THE LAST DECADE, JAPAN WILL HAVE FULLY ENSURED SECURITY OF SUPPLIES OF RESOURCES BY ESTABLISHING A VARIETY OF SUPPLIERS, MOVING ENERGY INTENSIVE INDUSTRIES OFFSHORE, AND IMPROVING PRODUCTIVITY BY INVESTMENT IN ENERGY-SAVING PLANTS. AS A FINAL NOTE, IT WILL HAVE RESTRUCTURED INTO HIGH GROWTH, HIGH INCOME, KNOWLEDGE INTENSIVE SECTORS.

CANADIAN TRADE OPTIONS: BILATERALISM VS MULTILATERALISM

OVER THE LAST YEAR, THERE HAS BEEN MUCH DEBATE OVER WHETHER CANADA SHOULD FOCUS ON A MULTILATERAL OR A BILATERAL APPROACH TO ITS TRADING PARTNERS.

BRITISH COLUMBIA'S POSITION IS TO EMPHASIZE THE IMPORTANCE OF THE MULTILATERAL PROCESS IN TRADE LIBERALIZATION. WHILE BRITISH COLUMBIA SUPPORTS GREATER LIBERALIZATION OF TRADE WITH THE U.S., IT IS CONCERNED THAT TALKS ON A BILATERAL AGREEMENT NOT UNDERMINE THE MULTILATERAL PROCESS.

BRITISH COLUMBIA IS ALSO CONCERNED THAT THE MOVEMENT TOWARDS BILATERALISM IN INTERNATIONAL TRADE NEGOTIATIONS COULD HURT CANADIAN INTERESTS AS WELL AS HELP THEM - THE UNITED STATES-JAPAN TRADE RELATIONSHIP BEING A CASE IN POINT. THE JAPAN-U.S. TRADING RELATIONSHIP IS SO HUGE AS TO DWARF ALL OTHER ECONOMIC RELATIONSHIPS IN THE REGION. BILATERAL ATTEMPTS TO RESOLVE THE FRICTIONS INHERENT IN THAT RELATIONSHIP COULD HAVE SERIOUS IMPLICATIONS FOR CANADIAN, PARTICULARLY WESTERN CANADIAN, TRADE INTERESTS IN BOTH COUNTRIES.

GIVEN THE IMPORTANCE OF OUR TIES WITH JAPAN, A REVIEW OF OUR RELATIONSHIP SHOULD BE UNDERTAKEN, RECOGNIZING OUR SHARED SECURITY, POLITICAL, AND ECONOMIC INTERESTS. THIS WOULD PROVIDE A FRAMEWORK IN WHICH TO EVALUATE PARTICULAR POLICIES. IT WOULD ALSO ENABLE CANADA TO MAKE A MUCH STRONGER CASE TO JAPAN THAT JAPANESE SECURITY INTERESTS IN DIVERSIFIED SOURCES OF SUPPLIES WOULD BE BETTER PROTECTED BY A MUCH EXPANDED AND BROADENED TRADE AND INVESTMENT RELATIONSHIP WITH CANADA. THE RECENT CHANGES TO FIRA/INVESTMENT CANADA PROVIDE ENCOURAGEMENT FOR A BROADENED INVESTMENT RELATIONSHIP. KEY AREAS WOULD BE FURTHER PROCESSED RESOURCE PRODUCTS, SECONDARY MANUFACTURING, AND HIGH TECHNOLOGY.

FUTURE DEVELOPMENTS

AS A RESULT OF FOREIGN DEMANDS TO OPEN ITS MARKET TO IMPORTS, THE INCREASING INTERNATIONALIZATION OF THE YEN, THE GROWTH OF TOKYO AS A FINANCIAL CENTRE, RENEWED ENERGY PRICE GROWTH, AND INCREASED DOMESTIC DEMAND AS THE RECESSION SUBSIDES, JAPAN PRESENTS AN EXCEPTIONAL MARKET FOR CANADA. JAPAN ACHIEVED VERY SUBSTANTIAL GROWTH IN 1984 WITH PRELIMINARY ESTIMATES SUGGESTING A 5% GROWTH RATE WAS ACHIEVED. MOST ESTIMATES PROJECT CONTINUED STRONG GROWTH THROUGH 1985.

THE ROLE OF CANADA AS A SUPPLY SOURCE, FOR RESOURCES, FABRICATED PRODUCTS, END PRODUCTS AND SERVICES WILL DEPEND, IN PART, UPON THE LONG TERM VIEW CANADA TAKES OF ITS PRESENT RELATIONSHIP WITH JAPAN. SUCCESSFUL SUPPLY DIVERSIFICATION, AND INDUSTRIAL RESTRUCTURING, WILL PERMIT JAPAN TO USE ITS ECONOMIC LEVERAGE TO MEET MANY OBJECTIVES, INCLUDING AIDING DEVELOPING COUNTRIES BY SHIFTING PRODUCTION FACILITIES, OR MEETING COMPLAINTS FROM DEVELOPED COUNTRIES BY ALTERING PROCUREMENT DECISIONS. ADOPTION BY CANADA OF SHORT TERM SOLUTIONS SUCH AS TRADE RESTRAINT MEASURES OR INVESTMENT RESTRICTIONS WILL NOT TRANSLATE INTO BENEFICIAL LONG TERM ECONOMIC CONSIDERATION.

MUCH OF THE BASIC RESTRUCTURING TAKING PLACE IN JAPAN CAN BE COMPLEMENTED BY COMPETITIVE DEVELOPMENTS IN CANADA, SUCH AS IN PETROCHEMICALS, SMELTING AND REFINING, PULP AND PAPER, NEWSPRINT, AND OTHER RESOURCE/ENERGY INTENSIVE INDUSTRIES. IN THE ENERGY SECTOR, CANADA IS ITSELF ADJUSTING TO A MARKET-BASED SYSTEM THAT IS LESS INSULATED FROM INTERNATIONAL OIL PRICE CHANGES. AT THE PROVINCIAL LEVEL, BRITISH COLUMBIA IS PLACING NEW EMPHASIS ON ENERGY AVAILABILITY FOR NEW INDUSTRIAL DEVELOPMENT.

THE GROWTH IN THE JAPANESE ECONOMY WILL ALSO PROVIDE OPPORTUNITIES IN SERVICE AREAS, SUCH AS TOURISM, OR CONSULTING SERVICES IN CONJUNCTION WITH JAPANESE FIRMS, BASED UPON EXPERIENCE GAINED IN CANADIAN PROJECTS.

KEENER COMPETITION WILL LIKELY BE SEEN IN PRODUCTS AND PROCESSES ALREADY TAKING HOLD IN INDUSTRIALIZING COUNTRIES SUCH AS KOREA. CANADA, IN ATTEMPTING TO TAKE ADVANTAGE OF JAPAN'S RESTRUCTURING, MUST BE AWARE THAT OTHER NEW COMPETITORS WILL BE MORE EFFICIENT IN CERTAIN PRODUCT LINES (SUCH AS ELECTRONICS, SHIPBUILDING AND STEEL) THAN THE JAPANESE. IN OTHER WORDS, CANADA MUST ALSO RESTRUCTURE AND INVEST TO MEET THE CHALLENGE OF THE "NEW JAPANS."

B.C./JAPAN RELATIONS

GIVEN THE IMPORTANCE OF BRITISH COLUMBIA/JAPAN ECONOMIC RELATIONS, THE PROVINCE PUTS CONSIDERABLE EMPHASIS ON TRADE POLICY AND TRADE DEVELOPMENT ACTIVITIES AFFECTING JAPAN. IN THIS REGARD, A STRONG CANADIAN COMMERCIAL PRESENCE IN JAPAN IS VIEWED AS ESSENTIAL.

CURRENTLY, FEDERAL REPRESENTATION IN THE PACIFIC IS MUCH LOWER THAN OUR COMMERCIAL PRESENCE IN THE UNITED STATES AND WESTERN EUROPE. CURRENTLY, THERE ARE 169 TRADE POSITIONS IN EUROPE (CANADIAN AND LOCAL STAFF) BUT ONLY 92 IN THE PACIFIC RIM. YET IT IS IN THE PACIFIC REGION, WHERE CANADIAN EXPORT DEVELOPMENT ACTIVITIES ARE THINLY SPREAD IN A DIFFICULT AND CHALLENGING CULTURAL AND LINGUISTIC ENVIRONMENT THAT THE NEED FOR STRONG AND WELL-COORDINATED EXPORT DEVELOPMENT ACTIVITIES ON THE PART OF THE PUBLIC AND PRIVATE SECTORS IS PARTICULARLY IMPORTANT.

THUS, BRITISH COLUMBIA HAS BEEN PRESSING OTTAWA TO INCREASE ITS COMMERCIAL REPRESENTATION ABROAD, REDIRECTING STAFF FROM ITS DOMESTIC ESTABLISHMENT IF NECESSARY, INTO THE PACIFIC. IN JAPAN, WE SEE A NEED FOR MORE COMMERCIAL STRENGTH IN TOKYO AND IMMEDIATE ACTION TO ESTABLISH A COMMERCIAL PRESENCE IN OSAKA.

Besides seeking a real shift in federal staffing into commercial positions in overseas posts, British Columbia has asked for the inclusion of provincial staff in key Canadian posts abroad. Such an approach could be more "Canadian", more effective, and less costly than a set of provincial offices in the Pacific Rim and elsewhere. A key goal of the new Ministry of International Trade and Investment is to help develop this initiative by working closely with the Federal government and the embassies abroad, especially in Tokyo.

At the provincial level, the Ministry of International Trade and Investment is undertaking additional initiatives to enhance British Columbia's reputation in the international marketplace. As host of Expo '86, we have an opportunity to showcase our province to visitors from Japan and the Japanese pavillion is expected to be a significant attraction at Expo 86. In recognition of the importance of B.C.-Japan relations, British Columbia is actively participating in the Canadian pavillion at Expo '85 in Tsukuba, Japan, the only province to do so.

BRITISH COLUMBIA'S ECONOMIC AND TRADE MISSIONS ALSO CONTINUE TO PLACE MAJOR EMPHASIS ON JAPAN. A JOINT MINISTERIAL MISSION LED BY MINISTERS PHILLIPS AND WATERLAND, COVERED THE FOREST SECTOR IN NOVEMBER, 1984; A TOURIST PROMOTION MISSION WAS SPONSORED BY MINISTER RICHMOND IN DECEMBER, 1984. THE FOCUS OF BRITISH COLUMBIA'S ECONOMIC AND TRADE MISSIONS ABROAD HAS RECENTLY BEEN EXPANDED TO INCLUDE INVESTMENT AS WELL AS TRADE. THUS, AN AUTOMOTIVE MISSION TO JAPAN IN FEBRUARY MADE A SERIES OF PRESENTATIONS TO AUTOMOTIVE AND AUTOMOTIVE PARTS PRODUCERS. THE ESTABLISHMENT OF THE NEW MINISTRY IN SPRING 1985 IS IN ITSELF EVIDENCE THAT THE LINKAGES BETWEEN TRADE AND INVESTMENT MUST BE RECOGNIZED. IT IS ANTICIPATED THAT PREMIER BENNETT WILL LEAD A MAJOR ECONOMIC MISSION TO JAPAN IN 1985.

BRITISH COLUMBIA JAPAN TRADE PROFILE

BRITISH COLUMBIA'S TRADE WITH JAPAN HAS GROWN RAPIDLY OVER THE LAST 25 YEARS. IN 1962 JAPAN PURCHASED $67 MILLION WORTH OF BRITISH COLUMBIA COMMODITIES ACCOUNTING FOR ONLY 7.2% OF TOTAL ESTIMATED EXPORTS. IN 1983, PROVINCIAL EXPORTS TO JAPAN HAD GROWN TO OVER $2.2 BILLION OR 24.2% OF THE PROVINCIAL TOTAL.

MAJOR FACTORS BEHIND THIS GROWTH HAVE BEEN JOINT JAPANESE-CANADIAN MINING PROJECTS WHICH HAVE STIMULATED BRITISH COLUMBIA EXPORTS OF MINERALS LIKE COPPER AND COAL AND INCREASED DEMAND FROM THE GROWING JAPANESE ECONOMY FOR FOOD PRODUCTS, FOREST PRODUCTS, ALUMINUM AND PETROCHEMICALS.

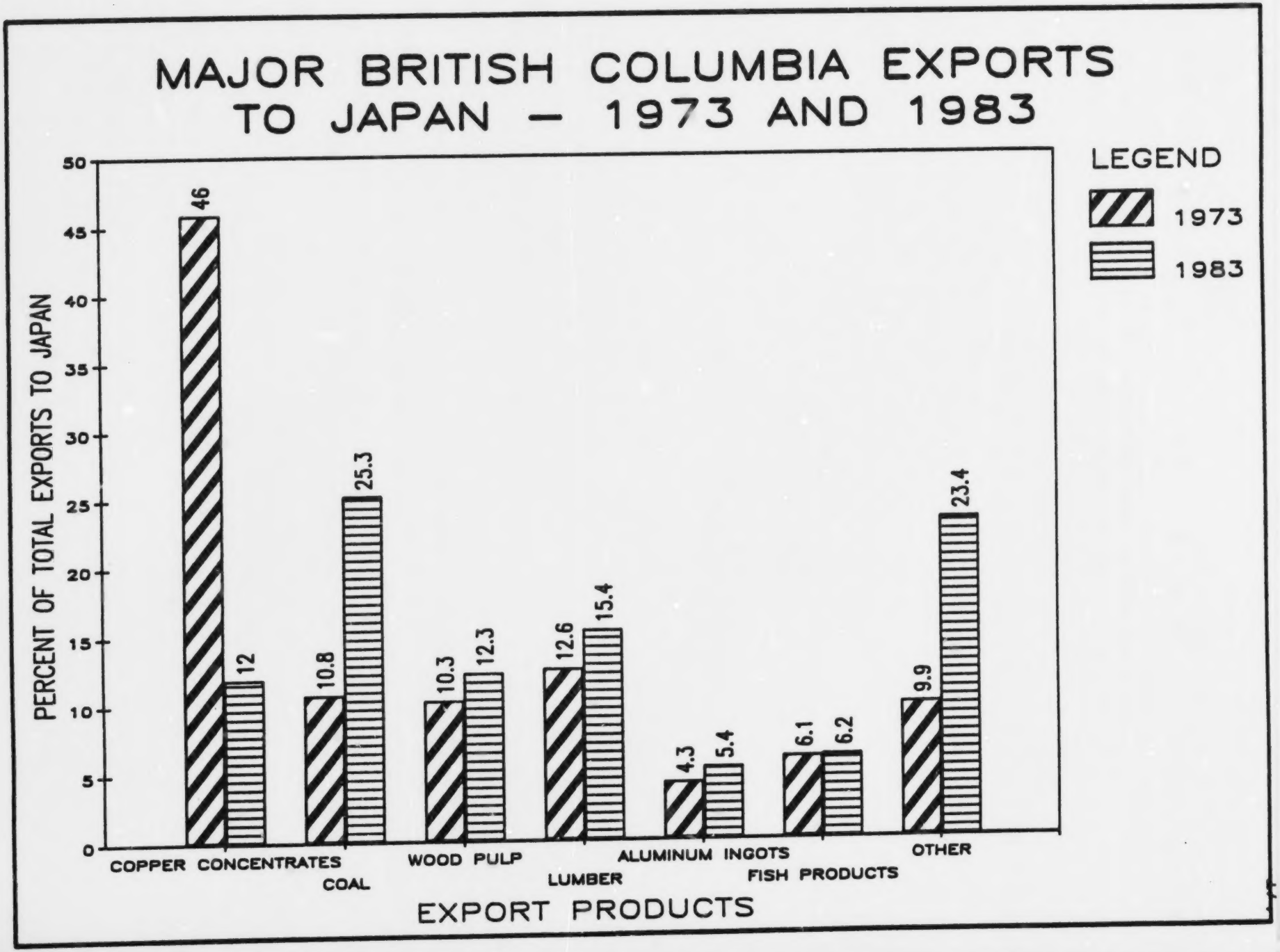
ALTHOUGH AT PRESENT, PRODUCTS EXPORTED TO JAPAN ARE LARGELY PRIMARY AND PARTIALLY PROCESSED RESOURCE PRODUCTS, IT IS ANTICIPATED THAT IN FUTURE YEARS, MANUFACTURED GOODS, PARTICULARLY WOOD AND CHEMICAL PRODUCTS, WILL MAKE UP A GREATER PROPORTION OF TOTAL EXPORTS. (1)

(1) IT IS ESTIMATED THAT AT PRESENT, FULLY MANUFACTURED GOODS ACCOUNT FOR ABOUT 10% OF PROVINCIAL EXPORTS TO JAPAN.

ESTIMATED BRITISH COLUMBIA EXPORTS TO JAPAN

(MILLIONS OF DOLLARS)

	1982	1983
COAL	564.6	560.5
LUMBER	384.5	341.7
WOOD PULP	290.3	274.4
COPPER CONCENTRATES	230.8	266.3
GOLD & SILVER IN ORES AND CONCEN.	58.3	193.8
ALUMINUM INGOTS	148.3	120.4
FISH PRODUCTS	159.7	135.7
LOGS	45.9	81.5
PULPWOOD CHIPS	41.0	32.9
OTHER	208.2	206.4
TOTAL	2,131.6	2,213.6


MAJOR BRITISH COLUMBIA EXPORTS
TO JAPAN — 1973 AND 1983
LEGEND
1973
1983
PERCENT OF TOTAL EXPORTS TO JAPAN
0
5
10
15
20
25
30
35
40
45
50
46
12
10.8
25.3
10.3
12.3
12.6
15.4
4.3
5.4
6.1
6.2
9.9
23.4
COPPER CONCENTRATES
COAL
WOOD PULP
LUMBER
ALUMINUM INGOTS
FISH PRODUCTS
OTHER
EXPORT PRODUCTS

CANADIAN EXPORTS TO JAPAN

(MILLIONS OF DOLLARS)

	1982	1983	1984
COAL & OTHER BITUMEN SUBSTANCES	837.0	829.9	1,275.1
RAPESEED	381.7	394.6	484.1
WOOD PULP AND SIMILAR PULP	366.4	332.2	432.5
LUMBER, SOFTWOOD	385.3	341.1	351.1
WHEAT	290.5	339.6	375.6
COPPER IN ORES, CONCENTRATES & SCRAP	242.7	274.5	282.3
ALUMINUM INCLUDING ALLOYS	209.2	219.3	182.2
ORGANIC CHEMICALS	81.3	138.4	177.9
MISC. FISHERY FOODS & FEEDS	116.4	144.8	147.0
PRECIOUS METALS INCL. ALLOYS	7.7	29.2	141.1
OTHER	1,650.2	1,678.1	1,779.7
TOTAL	4,568.4	4,721.7	5,628.6

CANADIAN IMPORTS FROM JAPAN

(MILLIONS OF DOLLARS)

	1982	1983	1984
PASSENGER AUTOMOBILES & CHASSIS	258.1	235.8	308.9
TELECOMMUNICATION EQUIP. EXC. TELEPHONE, TELEGRAPH EQUIP. TELEVISION, RADIOS & PHONOGRAPHS	104.0	175.4	230.6
SHIPS, BOATS & PARTS EXC. ENGINES	.8	41.2	227.0
MISC. MOTOR VEHICLES	31.2	48.4	69.1
PHOTOGRAPHIC GOODS, EXC. FILM	30.2	46.3	58.6
TRUCKS, TRUCK TRACTORS, & CHASSIS	61.4	35.4	48.4
TELEVISION RADIOS AND PHONOGRAPHS	29.2	41.9	48.2
MOTOR VEHICLE ENGINES	--	9.1	46.5
MISC. EQUIPMENT & TOOLS	20.2	33.8	39.8
MOTOR VEHICLE PARTS EXC. ENGINES	30.0	30.0	38.8
OTHER	348.1	403.1	581.6
TOTAL	913.2	1,100.4	1,697.5

FIRA/INVESTMENT CANADA

For some time FIRA has been looked upon by many parties as an institution which deters rather than attracts beneficial foreign investment to Canada. Some have argued that FIRA's rules, regulations and procedures actually restrict international trade.

Over the past five years, Ottawa attempted to address some of the concerns, raised by provinces and the business community, by streamlining the review process and clarifying a number of provisions in the Act that were subject to broad interpretation.

After much persuasion, the Federal Government has revamped the FIRA process, tabling the new Investment Canada legislation in Parliament. British Columbia views this as a positive and much needed step in the right direction to improve the country's investment climate. This province was pleased to see that some of our earlier suggestions have been reflected. While the changes did not go as far as British Columbia would have preferred, the new bill should eliminate a significant number of cases from the cumbersome review process.

THE FEDERAL GOVERNMENT AND ALL PROVINCES MUST DO MORE TO ENCOURAGE A GREATER FLOW OF FOREIGN INVESTMENT TO CANADA SO THAT BUSINESS AND EMPLOYMENT OPPORTUNITIES CAN BE CREATED. THE PROVINCE IS ENCOURAGED THAT OTTAWA WILL BE TAKING A MORE ACTIVE ROLE IN INVESTMENT PROMOTION. THERE ARE SOME CONCERNS, HOWEVER, THAT THE NEW AGENCY WILL NOT BE ABLE TO FILL ITS DUAL ROLES OF REGULATOR AND PROMOTER. ALSO, SOME CLARIFICATION OF INVESTMENT CANADA'S PROMOTION ROLE IS NEEDED SOON, SO AS TO MAXIMIZE COOPERATION AND COORDINATION OF EFFORTS WITH THE PROVINCES AND OTHERS.

BRITISH COLUMBIA'S POLICY HAS BEEN AND WILL CONTINUE TO BE ONE OF SUPPORTING BENEFICIAL FOREIGN INVESTMENT.

Canada/Japan Relations: Forest Products

- In December 1984, Forest Minister Tom Waterland announced a new log export policy for British Columbia. Under the new policy, a new log export policy committee will be set up to review log export applications. Exports of cypress (yellow cedar) have been totally banned.

- Japan is still the largest importer of B.C. logs, accounting for more than 45% of the total B.C. log exports. In fact log exports to Japan have been increasing in recent years.

- Attempts have been made, though without much success, to have Japan remove the 10% tariff on imported white lumber (spruce/pine/fir).

- Pressure has been put on Japan by U.S. trade negotiators to remove the current 15% tariff on imported plywood. Japan's forestry minister, Moriyoshi Sato, has indicated that tariff reduction is possible but will require that the Japanese government provide financial assistance to the industry. However, the minister has also suggested a three-year adjustment period for the Japanese plywood industry, during which time the existing tariff rate on imported plywood would prevail.

- Canadian plywood is compatible with Japanese standards, but is not completely compatible with sizes used there. Apart from attempts to convince the Japanese to accept the

AMERICAN SIZES, THE COUNCIL OF FOREST INDUSTRIES OF B.C. HAS BEEN TRYING TO REMOVE OTHER NON-TARIFF BARRIERS ON PLYWOOD. A RECENT ATTEMPT IS TO REMOVE THE REINSPECTION PROGRAM WHICH STIPULATES THAT IMPORTED PLYWOOD HAS TO BE REINSPECTED ONCE IT IS IN JAPAN EVEN IF IT HAS BEEN INSPECTED IN THE COUNTRY OF ORIGIN.

- ALTHOUGH PLATFORM-FRAME HOUSING (HOUSE CONSTRUCTION USING AMERICAN 2" X 4" DIMENSION LUMBER) IS GROWING IN POPULARITY, IT STILL AMOUNTS ONLY TO 2% TO 4% OF TOTAL HOUSING STARTS IN JAPAN. PLATFORM-FRAME HOUSES CONSUMED ABOUT 200 MILLION BOARD FEET OF LUMBER IN 1984 AND B.C. SUPPLIED 80% OF THIS VOLUME.

- A MAJOR CONCERN FOR THE FOREST INDUSTRY IN BOTH COUNTRIES IS THE OMINOUS DROP IN JAPANESE HOUSING STARTS IN RECENT YEARS. HISTORICALLY, HOUSING STARTS IN JAPAN WERE AT THE 1.4 MILLION LEVEL BUT HAVE DROPPED TO THE 1.0 - 1.1 MILLION LEVEL IN RECENT YEARS. THE DECLINE APPEARS LARGELY IN THE TRADITIONAL HOUSING SECTOR WHERE THE DROP IN THE SINGLE FAMILY HOUSING STARTS HAS BEEN QUITE DRAMATIC. COFI HAS SUGGESTED TO THE JAPANESE MINISTRY OF CONSTRUCTION THAT A MAJOR EFFORT TO PROMOTE WOOD BASED HOUSING IS NEEDED AND CANADA CAN HELP.

JAPAN AND BRITISH COLUMBIA'S COAL INDUSTRY

IMPORTANCE OF JAPAN TO B.C.'S COAL INDUSTRY

JAPAN ACCOUNTS FOR ABOUT 65% OF BRITISH COLUMBIA'S COAL SALES. ALMOST ALL OF THIS IS METALLURGICAL COAL FOR STEEL PRODUCERS.

JAPANESE COMPANIES HAVE SIGNIFICANT INVESTMENTS IN WESTAR MINING (BALMER, GREENHILLS), BULLMOOSE, AND QUINTETTE. JAPANESE INTERESTS HAVE ALSO AGREED TO TAKE A SHARE OF THE PROPOSED MONKMAN PROJECT IN RETURN FOR PROVIDING FUNDS FOR DEVELOPMENT.

SALES CONTRACTS WITH JAPAN PROVIDED THE BASIS FOR NORTH EAST COAL DEVELOPMENT. AT THE SAME TIME, JAPAN IS BUYING COAL FROM NEW AND ESTABLISHED PROJECTS IN THE SOUTH EAST.

RECENT MARKET DEVELOPMENTS

AGREEMENT HAS RECENTLY BEEN REACHED BETWEEN QUINTETTE AND THE JAPANESE STEEL INDUSTRY TO REDUCE THE PRICE OF QUINTETTE COAL BY $8.50 FOR 13 MONTHS FROM MARCH 1, 1985 TO MARCH 31, 1986. THIS LEAVES THE PRICE AT ABOUT $92 PER TONNE. A SIMILAR PRICE REDUCTION WAS APPLIED TO BULLMOOSE COAL IN OCTOBER, 1984. HOWEVER, IN THAT CASE THE JAPANESE STEEL INDUSTRY AGREED TO OFFSET THE PRICE REDUCTION WITH AN INCREASE IN PURCHASES OF COAL. QUINTETTE HAS NOT BEEN ABLE TO PRODUCE ITS CONTRACTED COAL TONNAGES.

A PRICE REDUCTION WAS ALSO NEGOTIATED IN 1984 FOR THE GREENHILLS MINE IN SOUTHEAST B.C. THE FORDING AND PALMER MINES AGREED TO SELL COAL FOR THE SAME PRICE IN 1985/86 AS IN THE PREVIOUS YEAR (APOUT $69/TONNE). THE LONG TERM CONTRACT FOR 4.3 MILLION TONNES PER YEAR PETWEEN BALMER AND THE JAPANESE STEEL INDUSTRY WAS RECENTLY EXTENDED FOR 5 YEARS.

Issues

BRITISH COLUMPIA IS CONCERNED THAT MEASURED TAKEN BY THE JAPANESE STEEL INDUSTRY TO DEAL WITH THE CURRENT EXCESS SUPPLIES OF COAL SHOULD NOT AFFECT THE VIABILITY OF THE PROVINCE'S COAL PRODUCERS OR HARM THE LONG-TERM TRADING RELATIONSHIP PETWEEN CANADA AND JAPAN.

COAL OPERATIONS IN B.C.

MINE/PROJECT	OPERATING COMPANY	SHAREHOLDERS	% OF INTEREST
SOUTHEAST			
BALMER	WESTAR MINING	MITSUPISHI/JAPANESE STEEL MILLS (JAPAN)	33.4
		WESTAR MINING	66.1
		PUBLIC	0.5
GREENHILLS	WESTAR MINING*	WESTAR MINING	80.0
		POHANG IRON & STEEL OF KOREA	
LINE CREEK	CROW'S NEST RESOURCES	CROW'S NEST RESOURCES	95.0
		MITSUI & CO. LTD. (JAPAN)	5.0
NORTHEAST			
QUINTETTE	QUINTETTE COAL LTD.	DENISON (CONTROLLING)	50.0
		TOKYO BOEKI (JAPAN)	10.5
		MITSUI MINING (JAPAN)	12.5
		CHARBONNAGES DE FRANCE	12.0
		SUMITOMO (JAPAN)	5.0
		9 JAPANESE STEEL MAKERS	10.0
BULLMOOSE	BULLMOOSE MINES	TECK	55.0
		LORNEX	35.0
		MISSHO-IWAI (JAPAN)	10.0

* WESTAR MINING IS 33.4% OWNED BY JAPANESE COMPANIES.

JAPAN AND BRITISH COLUMBIA'S COPPER/MOLYBDENUM INDUSTRY

IMPORTANCE OF JAPAN TO B.C.'S COPPER/MOLYBDENUM INDUSTRY

THE PROVINCIAL COPPER INDUSTRY UNDERWENT ITS MOST RAPID PERIOD OF EXPANSION IN THE 1960'S AND 1970'S IN RESPONSE TO THE GROWING MARKET FOR MINERALS IN JAPAN DURING THAT PERIOD. PRODUCTION WAS ON A LARGE SCALE AND REQUIRED LARGE, LONG-TERM CAPITAL INVESTMENTS. MOST OF THE MINES DEVELOPED DURING THIS PERIOD WERE FINANCED ON THE STRENGTH OF LONG TERM PURCHASING AGREEMENTS WITH JAPANESE INDUSTRY.

THERE ARE CURRENTLY 13 COPPER MINES IN THE PROVINCE, 5 OF WHICH PRODUCE BY-PRODUCT MOLYBDENUM. PRESENTLY 3 OF THESE MINES ARE TEMPORARILY CLOSED AWAITING IMPROVEMENTS IN MARKET CONDITIONS FOR COPPER. THERE ARE CURRENTLY NO PRINCIPAL MOLYBDENUM MINES IN OPERATION IN THE PROVINCE.

JAPANESE COMPANIES HAVE INVESTMENTS IN THE FOLLOWING COPPER/MOLYBDENUM MINES: BRENDA, LORNEX, GRANISLE, GIBRALTAR AND ISLAND COPPER.

IN 1984, B.C. PRODUCED ROUGHLY 285,000 TONNES OF COPPER AND 11,500 TONNES OF MOLYBDENUM.

ROUGHLY 70 PERCENT OF BRITISH COLUMBIA'S EXPORTS OF COPPER CONCENTRATES ARE SHIPPED TO JAPAN WHERE THEY ACCOUNT FOR ROUGHLY 8 PERCENT OF JAPANESE CONCENTRATE IMPORTS. IN 1984, B.C. SHIPPED 241,200 TONNES OF COPPER CONCENTRATES AND ORES AND 2400 TONNES OF MOLYBDENUM CONCENTRATES AND ORES TO JAPAN.

RECENT MARKET DEVELOPMENTS

INCREASINGLY THERE ARE REPORTS OF WORLD COPPER CONCENTRATE SHORTAGES. BOTH DEMAND AND SUPPLY OF REFINED COPPER ARE SHOWING INCREASES WORLDWIDE, HOWEVER SUPPLY HAS OUTPACED DEMAND AS PRIMARILY THIRD WORLD PRODUCERS, SUCH AS

CHILE AND PERU HAVE STEPPED UP PRODUCTION TO MEET THEIR GROWING FOREIGN EXCHANGE REQUIREMENTS. PRICES FOR COPPER HAVE, AS SUCH REMAINED AT DEPRESSED LEVELS IN THE LAST FEW YEARS. WITH THE EXCEPTION OF CHILE, PRODUCERS OF COPPER CONCENTRATES WHICH SUPPLY FEED TO SMELTERS AND REFINERIES, HAVE DECREASED PRODUCTION IN RESPONSE TO FALLING COPPER PRICES. SMELTERS AND REFINERIES WORLDWIDE HAVE RESPONDED TO THE SHORTAGE OF CONCENTRATES BY BIDDING DOWN TREATMENT AND REFINING CHARGES PAID BY CONCENTRATE PRODUCERS TO SMELTERS AND REFINERIES.

THE SQUEEZE IN CONCENTRATES HAS BENEFITTED MINE PRODUCERS, IN BRITISH COLUMBIA AND ELSEWHERE, AS THE BURDEN OF LOWER COPPER PRICES HAS BEEN PARTIALLY SHIFTED FROM MINE PRODUCERS TO SMELTER AND REFINERIES IN THE FORM OF LOWER TREATMENT AND REFINERY CHARGES. FOR BRITISH COLUMBIA MINES, HOWEVER, THESE REDUCED COSTS HAVE NOT TOTALLY OUTWEIGHED THE LOWER COPPER PRICES AND SEVERAL MINES HAVE TEMPORARILY CLOSED.

JAPANESE REFINERIES AND SMELTERS HAVE RESPONDED TO THE CONCENTRATE SQUEEZE BY REDUCING OUTPUT AND THEREFORE DEMAND FOR CONCENTRATES. AS NEW MORE EFFICIENT SMELTERS PRIMARILY IN KOREA, TAIWAN AND BRAZIL BID DOWN TREATMENT AND REFINING CHARGES, PROFIT MARGINS AT SMELTERS ARE REDUCED. RATHER THAN REDUCE PROFIT MARGINS FURTHER, OLDER, LESS EFFICIENT SMELTERS AND REFINERIES IN JAPAN CUT PRODUCTION BY 14.4 PERCENT IN 1984.

DESPITE THIS CUTBACK IN PRODUCTION, B.C. COPPER CONCENTRATE SHIPMENTS TO JAPAN INCREASED 15.5 PERCENT IN 1984 FROM 1983 LEVELS. B.C.'S SHARE OF TOTAL JAPANESE IMPORTS OF COPPER CONCENTRATES INCREASED FROM 6.7 PERCENT IN 1983 TO 8.2 PERCENT IN 1984.

Market Outlook

For 1985, most analysts predict that Japanese copper producers will not consider major additional cutpacks as more cutpacks would mean higher production costs. Japanese production and, therefore demand for concentrates in 1985 is expected to be roughly similar to 1984 levels.

B.C.'s ability to supply concentrates will rest with the world price of copper and the strength of the dollar relative to other currencies. Copper prices are not expected to rise significantly in the near term thus large production increases are unlikely. B.C.'s competitive position in the copper concentrate market would worsen if the U.S. dollar strengthens and third world producers enjoy further devaluations of local currencies against the U.S. dollar.

Molybdenum demand in Japan is expected to grow 10 percent in 1985 due to projected growth in exports of final goods which use molybdenum as an input. The increased demand is not expected to significantly increase molybdenum price in the near term as there is currently a large surplus of the metal. Principal molybdenum mines in the province will likely remain closed in the near term.

JAPANESE INVOLVEMENT IN COPPER/MOLYBDENUM MINES IN BRITISH COLUMBIA

Mine	Capacity tons/day	Ore* Reserves	Ownership	% of Control	Contracts	Original Japanese Debt Financing	Mine Status
Brenda Mines Ltd.	24,000	original 119 mt at .147% cu .032 molybdenum	Noranda Nippon Mining Co Mitsui Mining	49.90% 7.51% .28%	In 1977 a 1 year contract for cu to Japan.	$6.9 million loan byf Nippon Mining & Mitsui	Temporarily closed
Lornex Mining Corp. Ltd.	45,000	original 463 mt at .371% cu and 0.014% molybdenum	Rio Algom Teck Corp. Sumitom Mitsui & Co. Ltd. Mitsubishi Corp.	68.1% 21.6% .6% .6% .6%	Long term contracts for most of copper to Japanese consortium.	$26.5 million loan by Japanese group.	Operating
Granisle	13,300	N.A.	Noranda	100%		Japanese originally loaned to Granisle & Granby but Noranda has since taken over all operations.	Temporarily closed
Gibraltar Mines Ltd.	41,500	original 358 mt at .373% cu	Placer Development	72%	9 year contract with Nippon Mining cancelled in 1976.		Operating
Nuspar Resources Ltd.	N.A.	N.A.	Mitsui Mining Co. Ltd. Marubeni Corp.	14.4% 3%	Exploration		
Sumac Mines (Copper)			Sumitomo C. Itoh Marubeni	100%			
Island Copper	small	original 280 mt at .52% cu	Utah International	100%	10 year contract with Mitsui.		Operating
Kutcho Creek	(proposed)	lead/zinc/copper	Esso Minerals Canada Sumitomo Mining Ltd.				

N.A. - not available
* December 31, 1981

MAJOR COPPER PRODUCING MINES IN BRITISH COLUMBIA
1984

MINE	OWNER	TYPE[1]	MILL CAPACITY (tpd)[2]	BY-PRODUCTS	EMPLOYMENT	RESERVE LIFE	STATUS	1983 COPPER PRODUCTION (tonnes)
Afton	Teck (73%) Metallgesellschaft (27%)	OP/UG	6,800	Gold, Silver	294	1991	Operating	4,627
Brenda	Noranda (49.9%)	OP	33,000	Molybdenum, Gold, Silver	407	1993	Temporarily Closed	9,468
Similkameen	Newmont Mines	OP	20,000	Gold, Silver	305	2002+	Operating	21,591
Gibraltar	Placer (72%)	OP	41,000	Molybdenum	360	2001	Operating	27,893
Goldstream	Noranda	UG	1,500	Zinc, Silver	150	1992	Temporarily Closed	7,768
Highmont	Teck (50%) Redclay (30%) Metallgesellschaft (20%)	OP	22,700	Molybdenum	440	1995	Temporarily Closed	16,012
Island Copper	Utah Mines	OP	29,900		823	1992-96	Operating	60,012
Lornex	Rioalgom (68%) Teck (21.7%)	OP	72,600	Molybdenum, Silver	937	2006	Operating	82,410
Valley Copper	Cominco	OP	20,000	Molybdenum, Gold, Silver	424	2010	Operating	32,977
Equity Silver	Placer (70%)	OP	4,500	Silver	291	1994	Operating	8,218
Horne Silver	Dankoe	UG	400	Silver, lead	14			
Myra/Lynx	Brascan (85%)	UG	900	Silver, zinc, gold	349		Operating	2,164
HW	Brascan (85%)	UG	2,700	Silver, zinc, gold	-	2002	To begin operation 1985	-

[1] OP: Open Pit
UG: Underground

[2] tpd: tonnes per day

Source: Ministry of Energy, Mines and Petroleum Resources; Halvorson Consultants

THE WESTERN LIQUIFIED NATURAL GAS PROJECT

THE LNG PROJECT IS A PROPOSAL FOR THE LIQUIFACTION OF BRITISH COLUMBIA AND ALBERTA NATURAL GAS FOR EXPORT TO JAPAN. CAPITAL COSTS FOR THE PROJECT ARE ESTIMATED AT ABOUT $3 BILLION (1983). DIRECT EMPLOYMENT FROM THE PROJECT WOULD AMOUNT TO 1,600 MAN-YEARS DURING THE CONSTRUCTION PHASE AND 92 PERMANENT JOBS FOR THE PRINCE RUPERT AREA THEREAFTER. THE PROPONENT OF THE PROJECT IS CANADA LNG LTD., A CONSORTIUM MADE UP OF UNION OIL CO. OF CANADA, NIC RESOURCES INC., A UNIT OF NISSHO IWAI CORP. OF JAPAN, SUNCOR INC., PAN-ALBERTA GAS LTD., AND WESTCOAST TRANSMISSION CO. LTD.

IN THE FACE OF TOUGH COMPETITION FROM OTHER ENERGY SOURCES IN JAPAN AND A WORLD LNG SURPLUS WHICH IS DEPRESSING PRICES, CANADA LNG LTD. IS CURRENTLY SEEKING TO RESHAPE THE PROJECT.

OSAKA GAS LTD., WHICH WAS TO TAKE 20 PERCENT OF THE TOTAL 2.9 MILLION TONNES OF THE LNG INVOLVED IN THE PROJECT, ANNOUNCED EARLY IN THE NEW YEAR THAT IT WAS WITHDRAWING BECAUSE THE CANADIAN GROUP WAS TAKING TOO LONG TO PUT TOGETHER A DEAL. OSAKA WILL OBTAIN ITS SHARE OF THE LNG FROM INDONESIA AND OTHER SOURCES.

MEMBERS OF THE CONSORTIUM MET WITH THE REMAINING BUYERS IN JAPAN ON APRIL 3RD AND 4TH.

BOTH BUYERS AND SELLERS ARE LOOKING FOR CLARIFICATION ON PRICES BEYOND 1990. THE SELLERS ARE LOOKING FOR A PRICE ESCALATOR OF 4-5% PER ANNUM OVER THE 20-YEAR CONTRACT. THE BUYERS WISH TO PEG PRICES TO A BASKET OF LNG PRICES.

THE RECENTLY SIGNED ENERGY ACCORD WILL SERVE TO REDUCE NATURAL GAS COSTS BY ABOUT 20¢/MCF. THE CHANGES IN BRITISH COLUMBIA MUNICIPAL TAXES (ELIMINATION OF TAXES ON MACHINERY AND EQUIPMENT) WILL SERVE TO REDUCE NATURAL GAS COSTS BY ABOUT ANOTHER 20¢/MCF.

PETRO-CANADA AND MOBIL OIL HAVE YET TO JOIN THE CONSORTIUM OF SELLERS.

APRIL 10, 1985

JAPAN/CANADA RELATIONS: FISHERIES

INTRODUCTION

JAPAN IS BRITISH COLUMBIA'S LARGEST MARKET FOR FISH PRODUCTS, ACCOUNTING FOR ABOUT 50 PERCENT OF TOTAL EXPORTS. IN 1984 TOTAL EXPORTS TO JAPAN WERE VALUED AT $145.4 MILLION.

B.C.'S MOST IMPORTANT FISH PRODUCT EXPORT TO JAPAN IS HERRING ROE, FOLLOWED BY FROZEN SALMON, PARTICULARLY SOCKEYE SALMON, AND VARIOUS SPECIES OF GROUNDFISH AND SHELLFISH. ON AVERAGE, HERRING ROE AND FROZEN SOCKEYE SALMON ACCOUNT FOR 80 PERCENT OF BRITISH COLUMBIA'S FISHERIES EXPORTS TO JAPAN. THE TRADE ISSUE OF GREATEST CONCERN TO B.C. IS THE SIZE OF THE JAPANESE IMPORT TARIFF ON HERRING ROE (12%).

THE TOTAL VALUE OF B.C.'S EXPORTS TO JAPAN FLUCTUATES CONSIDERABLY FROM YEAR TO YEAR, DUE TO CHANGES IN B.C. LANDINGS, THE EXCHANGE RATE AND MARKET CONDITIONS IN JAPAN.

BRIEF HISTORY OF B.C./JAPAN FISH PRODUCT TRADE

THE PERIOD FROM 1970 TO 1979 WAS CHARACTERIZED BY A REDUCTION IN JAPANESE DOMESTIC HERRING AND SALMON SUPPLIES AND, CONSEQUENTLY, A DRAMATIC INCREASE IN JAPANESE IMPORTS OF HERRING ROE AND SALMON FROM BRITISH COLUMBIA.

THE BRITISH COLUMBIA ROE HERRING FISHERY WAS INITIATED IN THE EARLY 1970'S IN RESPONSE TO TWO INDEPENDENT FACTORS: THE RECOVERY OF HERRING STOCKS IN BRITISH COLUMBIA AFTER BEING OVERFISHED IN THE MID 1960'S, AND THE REMOVAL OF JAPANESE IMPORT RESTRICTIONS OF HERRING ROE. IN THE LATE 1970'S

PRODUCT SCARCITY AND THE APPPECIATION OF THE JAPANESE YEN COMPINED TO RAISE THE CANADIAN EXPORT PRICE PY APOUT 500 PERCENT OVER 5 YEARS.

THE JAPANESE MARKET FOR FROZEN SALMON, PARTICULARLY SOCKEYE, ALSO EXPANDED SIGNIFICANTLY IN THE MID 1970'S AS A PESULT OF THE CREATION OF 200 MILE FISHING ZONES IN CANADA AND THE U.S.A. SALMON PREVIOUSLY SUPPLIED PY JAPAN'S DISTANT WATER FLEET NOW HAD TO PE IMPORTED. THIS INCREASE IN THE DEMAND FOR CANADIAN AND AMERICAN SALMON, COMPINED WITH THE APPRECIATION OF THE YEN, CAUSED PRICES FOR FROZEN SALMON EXPORTS TO JAPAN TO DOUPLE OVER THE LATTER HALF OF THE 1970'S.

DURING THIS PERIOD, JAPANESE FISH PRODUCT IMPORTERS COMPETED TO SECURE SUPPLIES PY PIDDING PRICES UP POTH TO ESTAPLISHED PROCESSORS, AND THROUGH CASH PUYERS ON THE FISHING GROUNDS. AT THE SAME TIME, JAPANESE DIRECT AND PORTFOLIO INVESTMENT IN B.C. PROCESSING COMPANIES INCREASED SIGNIFICANTLY. CONCERN REGARDING THE POTENTIAL NEGATIVE EFFECTS OF JAPANESE INVESTMENT LED TO A NUMPER OF STUDIES AND A TEMPORARY MORATORIUM ON PUYER AND PROCESSOR LICENCES. THIS MORATORIUM WAS LIFTED IN 1980.

SINCE 1979, THE PICTURE HAS CHANGED CONSIDERAPLY. THE VALUE OF THE YEN HAS PEEN MUCH MOPE STAPLE THAN DURING THE EAPLIER PERIOD. PRICES FOP HEPRING DROPPED PY 50 PERCENT IN 1980, DUE TO CONSUMER RESISTANCE TO INCREASING PRICES WHICH CULMINATED IN AN ORGANIZED CONSUMER POYCOTT. JAPANESE HERRING ROE PRICES HAVE REMAINED RELATIVELY STAPLE SINCE 1980. PRICES FOR SOCKEYE SALMON REMAINED RELATIVELY FIRM THROUGH 1981, DECLINED 20 PERCENT PY 1983 AND, SUPSEQUENTLY, INCREASED 30 PERCENT FROM THE 1983 LOW.

A DECLINE IN JAPANESE FINANCIAL INVOLVEMENT IN FISH PROCESSING COMPANIES IN B.C. HAS ACCOMPANIED THE RECENT DECLINE IN PRICES FOR OUR MAIN EXPORTS TO JAPAN. OAKLAND FISHERIES AND CASSIAR PACKING, BOTH OF WHICH HAD JAPANESE BACKING, HAVE RECENTLY GONE INTO RECEIVERSHIP.

FISHERIES TRADE ISSUES

1) IMPORT QUOTAS: JAPAN MAINTAINS A SYSTEM OF IMPORT QUOTAS (IQ'S) FOR MARINE PRODUCTS TO PROTECT FISHERMEN AND PROCESSORS IN JAPAN FROM FOREIGN COMPETITION. THE BRITISH COLUMBIA SPECIES AFFECTED INCLUDE HERRING, COD AND COD ROE, POLLOCK AND POLLOCK ROE, SCALLOPS, SQUIDS, AND KELP. CANADA DOES NOT ALLOW THE EXPORT OF UNPROCESSED ROE HERRING AND EXPORTS ONLY A SMALL QUANTITY OF FOOD HERRING FROM BRITISH COLUMBIA, SO EXPORTS OF HERRING DO NOT APPEAR TO BE RESTRICTED AT THE PRESENT TIME. SOME VARIETIES OF KELP (LAMINARIA AND CYNATHERE), SCALLOPS AND SQUID REPRESENT SPECIES WITH SOME EXPORT POTENTIAL, SO IQ'S ON THESE SPECIES COULD BE A FUTURE CONCERN. JAPAN CURRENTLY IMPORTS POLLOCK ROE, COD ROE AND COD FROM BRITISH COLUMBIA, BUT NOT POLLOCK.

2) TARIFFS: THE TARIFFS OF PARTICULAR CONCERN TO US ARE SALTED HERRING ROE (12%); AND HERRING ROE ON KELP (15%). JAPAN ALSO MAINTAINS TARIFFS ON OTHER BRITISH COLUMBIA FISH PRODUCTS SUCH AS: FROZEN SALMON (4%); SALTED SALMON ROE (7.5%); AND SALTED OR DRIED FISH (15%).

CANADA/JAPAN: AUTOMOTIVE

JAPANESE AUTOMOTIVE EXPORTS TO CANADA WERE REGULATED BY A VOLUNTARY EXPORT RESTRAINT (VER) AGREEMENT STARTING APRIL 1, 1981. THIS AGREEMENT HAS INVOLVED PERIODIC NEGOTIATION OF QUOTA LEVELS.

IN JUNE 1983 JAPAN AGREED TO LIMIT AUTOMOTIVE EXPORTS TO CANADA TO 202,600 VEHICLES DURING THE PERIOD JANUARY 1, 1983 TO MARCH 31, 1984. PRO-RATED TO A YEARLY FIGURE, THE QUOTA LIMITED JAPANESE AUTO EXPORTS DESTINED FOR CANADA TO THE EQUIVALENT OF 162,080 VEHICLES ANNUALLY. BECAUSE OF THE INCREASE IN CANADIAN AUTOMOTIVE SALES, THE QUOTA REPRESENTED A REDUCTION IN MARKET SHARE FOR JAPANESE PRODUCERS FROM THE 25% THEY HELD IN 1982.

IN DECEMBER 1983 THE JAPANESE AGREED TO LIMIT AUTOMOTIVE EXPORTS TO THE U.S. TO 1,850,000 VEHICLES FOR THE PERIOD FROM APRIL 1, 1984 TO MARCH 31, 1985. THIS ONE-YEAR PERIOD WAS THE FOURTH YEAR IN WHICH JAPANESE AUTOMOTIVE TRADE TO THE U.S. HAS BEEN RESTRICTED BY A VER. ORIGINALLY, THE U.S. AND JAPAN HAD AGREED TO SET THREE ONE-YEAR EXPORT QUOTAS. HOWEVER, SINCE 1984 WAS AN ELECTION YEAR THERE WAS CONSIDERABLE POLITICAL PRESSURE TO EXTEND THE AGREEMENT FOR

ANOTHER YEAR. SINCE THE JAPAN-CANADA AGREEMENT WAS ORIGINALLY DESIGNED TO PREVENT DIVERSION OF JAPANESE EXPORTS FROM THE U.S. MARKET (AS A RESULT OF THE JAPAN-U.S. RESTRAINT AGREEMENTS) THERE WAS ALSO CONSIDERABLE PRESSURE TO EXTEND THE CANADA-JAPAN AGREEMENT.

THE REPORT BY THE CANADIAN AUTOMOTIVE INDUSTRY TASK FORCE, WHICH CALLED FOR CONTENT REQUIREMENTS, FURTHER INCREASED THE PRESSURE TO BLOCK JAPANESE AUTOMOTIVE IMPORTS INTO CANADA. IN ADDITION, THE UNITED AUTO WORKERS UNION AND THE AUTOMOTIVE PARTS MANUFACTURERS ASSOCIATION, WITH SUPPORT FROM THE MAJOR AUTOMOTIVE MANUFACTURERS, CONDUCTED A CAMPAIGN TO URGE THE FEDERAL GOVERNMENT TO IMPLEMENT CONTENT REQUIREMENTS AS A CONDITION FOR AUTOMOTIVE SALES IN CANADA. THIS MEASURE WOULD BE A CLEAR VIOLATION OF CANADA'S GATT OBLIGATIONS.

SEVERAL BILLION DOLLARS OF AUTOMOTIVE INVESTMENTS WERE MADE IN THE U.S., IN THE EARLY 1980'S BY JAPANESE PRODUCERS. THERE HAVE BEEN ASSERTIONS THAT CANADA SHOULD RECEIVE ITS "FAIR" SHARE OF THIS INVESTMENT, WITH THE SUGGESTION THAT TRADE IMPEDIMENTS SHOULD BE USED IN ORDER TO FORCE THE JAPANESE TO MAKE INVESTMENT COMMITMENTS. THIS LINE OF ARGUMENT HAS GENERALLY BEEN BASED ON TWO PREMISES. THE FIRST IS THAT JAPANESE SALES IN CANADA SHOULD BE MATCHED BY DOMESTIC PRODUCTION. THIS POSITION IS PUT FORWARD BY THE

AUTOMOTIVE INDUSTRY TASK FORCE AND IS THE FUNDAMENTAL ASSUMPTION UNDERLYING ITS ARGUMENT FOR CONTENT REQUIREMENTS. WIDESPREAD ACCEPTANCE OF THIS PRINCIPLE WOULD BE DAMAGING FOR THE INTERNATIONAL TRADE SYSTEM AND CANADA AS IT WOULD BE ALMOST IMPOSSIBLE FOR CANADIAN EXPORTERS IN OTHER SECTORS TO MEET SIMILAR INVESTMENT THEMSELVES AS A CONDITION OF MARKET ACCESS FOR THEIR PRODUCTS.

THE OTHER PREMISE FOR TYING ACCESS TO INVESTMENT IS THAT SINCE THE U.S. HAS SUPPOSEDLY SUCCEEDED IN OBTAINING INVESTMENT IN RETURN FOR RELAXED RESTRICTIONS ON JAPANESE AUTOMOTIVE IMPORTS, CANADA SHOULD BE ABLE TO OBTAIN THE SAME. THIS ARGUMENT OVERLOOKS THE FACT THAT INVESTMENT CONDITIONS ARE DIFFERENT IN THE U.S. AND THAT JAPAN AGREED TO THE VER'S ONLY TO GIVE THE NORTH AMERICAN AUTOMOTIVE INDUSTRY A "BREATHING SPACE" IN WHICH TO ADJUST TO NEW MARKET CONDITIONS. NEITHER CANADA NOR THE U.S. HAS THE RIGHT UNDER THE GATT TO BLOCK JAPANESE ACCESS WITHOUT PROVIDING JAPAN WITH COMPENSATION.

A NEW PHASE IN THIS DISPUTE HAS NOW BEEN REACHED, FOLLOWING THE EXPIRATION OF THE MARCH 31, 1985 DEADLINE AND THE DECISION BY THE UNITED STATES NOT TO EXTEND ITS VER ARRANGEMENT WITH JAPAN.

THE PROVINCE HAS CONVEYED ITS VIEW ON THE POLICY THE CANADIAN GOVERNMENT SHOULD ADOPT REGARDING JAPANESE AUTOMOBILE IMPORTS. THE CURRENT VER WITH THE JAPANESE EXPIRED ON MARCH 31. BRITISH COLUMBIA BELIEVES THAT EXTENDING VERS IN THIS SECTOR BEYOND MARCH 31 WOULD BE COUNTERPRODUCTIVE TO CANADIAN AND BRITISH COLUMBIAN INTERESTS AND CANNOT BE JUSTIFIED.

THE CIRCUMSTANCES IN THE CANADIAN AUTO INDUSTRY IN 1981 WHICH LED TO THE INTRODUCTION OF JAPANESE VERS ON AUTOMOBILES ARE FUNDAMENTALLY DIFFERENT FROM THOSE THAT EXIST TODAY. IN 1981 CANADIAN (AND U.S.) AUTO PRODUCERS WERE EXPERIENCING DECLINING SALES, REDUCED PROFITABILITY AND RISING EMPLOYMENT. WHILE SOME OF THE CAUSES OF THE COMPANIES' FINANCIAL PROBLEMS WERE BEYOND THEIR CONTROL, THEIR PRINCIPAL PROBLEM WAS THE PUBLIC PERCEPTION THAT IMPORTED VEHICLES, ESPECIALLY FROM JAPAN, WERE OF HIGHER QUALITY PRODUCTS.

FORTUNATELY, IN THE PAST FOUR YEARS THE NORTH AMERICAN

AUTOMOBILE COMPANIES, TO THEIR CREDIT, HAVE MADE MAJOR ADVANCES IN INTRODUCING NEW TECHNOLOGIES IN THE INDUSTRY AND IN IMPROVING THE QUALITY, MIX AND PRICE COMPETITIVENESS OF THEIR PRODUCTS COMPARED TO OFFSHORE PRODUCERS, INCLUDING THE JAPANESE. THIS RESTRUCTURING OF THE CANADIAN AND U.S. AUTO INDUSTRIES HAS COMPLETELY REVERSED THE FORTUNES OF THE MAJOR MANUFACTURES. ALL OF THEM ARE POSTING STRONG PROFITS, AND EMPLOYMENT LEVELS HAVE REBOUNDED TO HEALTHY LEVELS CONSISTENT WITH EFFICIENT OPERATIONS AND A RESTRUCTURED INDUSTRY.

IF CANADA DOES NOT RESTORE COMPETITION, SUBJECT TO THE TARIFF, IN THE CANADIAN AUTOMOTIVE MARKET, SERIOUS NEGATIVE CONSEQUENCES WILL FOLLOW IN SEVERAL AREAS. IF THE VERS ARE MAINTAINED, THE COSTS (INCLUDING CONSUMER COSTS) ASSOCIATED WITH THEIR MARKET DISTORTION WILL MOUNT.

OF PARTICULAR IMPORTANCE TO BRITISH COLUMBIA IS THE IMPACT OF THE VER PRECEDENT ON OTHER SECTORS AS CANADA'S USE OF VERS HAS NOT GONE UNNOTICED. FOR EXAMPLE, CANADA'S ABILITY TO COUNTER PROTECTIONIST PRESSURES IN THE U.S. FOREST PRODUCTS MARKET DEPENDS, IN PART, ON THE PERCEPTION IN THE U.S. THAT CANADA IS A FAIR TRADER AND WILL NOT MAINTAIN TRADE RESTRICTIONS INCONSISTENT WITH THE GATT.

BRITISH COLUMBIA, HOWEVER, WILL CONTINUE TO ACTIVELY PROMOTE INCREASED VOLUNTARY JAPANESE INVESTMENT IN THE CANADIAN AUTOMOTIVE SECTOR. THE RECENT BRITISH COLUMBIA AUTOMOTIVE MISSION TO JAPAN AND THE FORMAL OPENING OF THE TOYOTA WHEEL PLANT IN DELTA APRIL 1 CONFIRM THIS COMMITMENT. WE ENCOURAGE FURTHER EFFORTS TO EXPLAIN TO JAPANESE FIRMS THAT A CANADIAN LOCATION GIVES THEM ACCESS TO A NORTH AMERICAN, AS WELL AS CANADIAN, MARKET.

POOR
QUALITY
ORIGINAL